

Township of Covert
Van Buren County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended June 30, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Township of Covert

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is intended as a narrative overview of the Township of Covert's (the Township) operations over the fiscal year and its financial condition on June 30, 2008.

Financial highlights

- The Township's total net assets increased \$450 thousand (5 percent) as a result of this year's operations. Net assets of the governmental activities increased 374 thousand (12 percent), and net assets of the business-type activities increased \$75 thousand (1 percent).
- Of the \$10.4 million total net assets reported, \$2.2 million is available to be used to meet future operating and capital improvement needs.
- The General Fund unreserved undesignated fund balance at the end of the fiscal year was \$662 thousand, which represents 95 percent of the actual total General Fund expenditures for the fiscal year.

Overview of the financial statements

This discussion and analysis introduces the Township's basic financial statements that follow this section. The Township's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township government, reporting the Township's operations in more detail than the government-wide financial statements.
 - The governmental funds statements tell how general government services like public works and public safety were financed in the short term, as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business. The Township has two proprietary funds to account for its water and sewer operations.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Township of Covert

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Government-wide financial statements

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets (the difference between the Township's assets and liabilities) is one way to measure the Township's financial health, or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors, such as changes in the Township's property tax base and the condition of the Township's capital assets.

The government-wide financial statements are divided into two categories:

- *Governmental activities* - Most of the Township's basic services are included here, such as fire and police protection and general government. State shared revenue and property taxes finance most of these activities.
- *Business-type activities* - The Township charges fees to customers to help it cover the costs of the services it provides. The Township's sewer system is reported here.

Fund financial statements

The fund financial statements provide more detailed information about the Township's most significant funds - not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Township has three kinds of funds:

1. *Government funds*. Most of the Township's basic services are included in governmental funds, which focus on 1) how cash, and other financial assets that can be readily converted to cash, flow in and out and, 2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship between them.

Township of Covert

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fund financial statements (Continued)

2. *Proprietary funds.* Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. In fact, the Township's enterprise funds (a type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows.
3. *Fiduciary funds.* These funds are used to account for the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The Township's fiduciary activities are reported in separate statements of net assets - fiduciary fund. We exclude these activities from the Township's government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Net Assets. Total net assets at the end of the fiscal year were \$10.4 million, an increase of 5 percent over the prior year. However, \$6.3 million of this total is invested in capital assets, and \$1.9 million is restricted for debt service, public safety, public works, and health and welfare. Consequently, unrestricted net assets were \$2.2 million, 21 percent of the total.

	Net Assets					
	Governmental activities		Business-type activities		Totals	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 2,220,422	\$ 1,759,645	\$ 2,179,599	\$ 2,319,795	\$ 4,400,021	\$ 4,079,440
Capital assets	1,171,140	1,266,579	17,004,604	17,410,579	18,175,744	18,677,158
Total assets	3,391,562	3,026,224	19,184,203	19,730,374	22,575,765	22,756,598
Long-term debt outstanding	235,900	231,200	11,696,300	12,352,823	11,932,200	12,584,023
Other liabilities	99,465	113,019	108,457	73,451	207,922	186,470
Total liabilities	335,365	344,219	11,804,757	12,426,274	12,140,122	12,770,493
Net assets:						
Invested in capital assets, net of related debt	1,044,140	1,131,579	5,308,304	5,128,760	6,352,444	6,260,339
Restricted	1,264,706	1,150,991	651,558	824,058	1,916,264	1,975,049
Unrestricted	747,351	399,435	1,419,584	1,351,282	2,166,935	1,750,717
Total net assets	\$ 3,056,197	\$ 2,682,005	\$ 7,379,446	\$ 7,304,100	\$ 10,435,643	\$ 9,986,105

Township of Covert
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE (Continued)

Changes in net assets. The Township's total revenues are \$3.7 million. Approximately 72 percent of the Township's revenues come from property taxes, and 6 percent is received as state revenue sharing. About 19 percent of total revenues come from charges for services.

Condensed financial information Changes in Net Assets						
	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Program revenues:						
Charges for services	\$ 432,758	\$ 444,446	\$ 286,765	\$ 263,500	\$ 719,523	\$ 707,946
Operating grants and contributions	9,543	9,928	-	-	9,543	9,928
Capital grants and contributions	-	2,000	-	-	-	2,000
General revenues:						
Property taxes	1,743,675	1,395,501	957,299	616,357	2,700,974	2,011,858
Franchise fees	-	2,698	-	-	-	2,698
State shared revenue	218,236	211,186	-	-	218,236	211,186
Interest income	37,132	28,462	61,497	68,295	98,629	96,757
Other	-	3,557	-	-	-	3,557
Total revenues	<u>2,441,344</u>	<u>2,097,778</u>	<u>1,305,561</u>	<u>948,152</u>	<u>3,746,905</u>	<u>3,045,930</u>
Expenses:						
Legislative	1,801	3,412	-	-	1,801	3,412
General government	366,413	357,791	-	-	366,413	357,791
Public safety	1,161,048	1,205,434	-	-	1,161,048	1,205,434
Public works	259,513	302,400	1,230,215	1,203,028	1,489,728	1,505,428
Health and welfare	158,147	98,589	-	-	158,147	98,589
Community and economic development	46,707	26,263	-	-	46,707	26,263
Recreation and culture	67,954	97,809	-	-	67,954	97,809
Interest	5,569	5,899	-	-	5,569	5,899
Total expenses	<u>2,067,152</u>	<u>2,097,597</u>	<u>1,230,215</u>	<u>1,203,028</u>	<u>3,297,367</u>	<u>3,300,625</u>
Excess (deficiency) before transfers	374,192	181	75,346	(254,876)	449,538	(254,695)
Transfers	-	(30,000)	-	30,000	-	-
Increase (decrease) in net assets	<u>\$ 374,192</u>	<u>\$ (29,819)</u>	<u>\$ 75,346</u>	<u>\$ (224,876)</u>	<u>\$ 449,538</u>	<u>\$ (254,695)</u>

Governmental activities. Governmental activities increased the Township's net assets by \$374 thousand. Key factors include \$284 thousand increased property tax revenues from higher taxable values and a millage rate adjustment for the Police Fund. Further, the Township had to spend less this year for various costs including blight removal, road maintenance and parks. The cost of all governmental activities this year was \$2.1 million. After subtracting the direct charges to those who directly benefited from the programs (\$433 thousand) and operating grants (\$10 thousand), the "public benefit" portion covered by taxes, state revenue sharing, other general revenues, and available surplus was \$1.6 million.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE (Continued)

Business-type activities. Business-type activities increased the Township's net assets by \$75 thousand. Key factors include increased property tax revenues due to a millage rate adjustment to meet bond requirements. The Township levies an annual tax for the purposes of paying principal and interest for outstanding water bonds payable. The tax totaled \$957 thousand in 2008, compared to \$616 thousand in 2007.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

At June 30, 2008, the Township's governmental funds reported a combined fund balance of \$2.1 million, approximately the same as last year.

Revenues in the General Fund exceeded expenditures by \$143 thousand. However, the fund balance of the General Fund increased by \$243 thousand because the transfer of \$100 thousand from the Fire and Ambulance Fund for the repayment of prior years subsidies from the General Fund. Increased property taxes, reduced expenditures for blight removal and parks, and the elimination of the need for transfers to support public safety and water services due to sufficient revenues in those funds resulted in the fund balance increase.

The Police Fund had a \$72 thousand increase in its fund balances this year, after the increase in property tax millage rates. The Fire and Ambulance Fund balance increased by \$75 thousand. The Fire and Ambulance Fund was able to transfer \$100 thousand back to the General Fund this year as a repayment of prior General Fund subsidies.

General Fund budgetary highlights

The Township amended the General Fund budget to prevent budget overruns in planning and zoning, as well as library activities.

Positive variances in several expenditure categories resulted in a net positive expenditure budget variance of \$219 thousand. Actual revenues for the year were approximately \$96 thousand more than projected, resulting in a net positive variance of revenues less expenditures of \$315 thousand. Positive revenue and expenditure variances in several activities reflect generally conservative estimates used in by the Township in budgeting.

Capital assets and debt administration

Capital assets.

At June 30, 2008, the Township had invested \$18.2 million in various capital assets, net of depreciation, including its land, buildings, equipment, and water and wastewater systems. This amount represents a decrease of \$501 thousand, 2.7 percent over the prior year.

This year's major capital asset additions included \$13 thousand in additions to the governmental capital assets, consisting of library building improvements.

Township of Covert
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS (Continued)

Capital assets and debt administration (Continued)

Detailed information about the Township's capital assets is presented in Note 6 to the financial statements.

Long-term debt.

At the end of the fiscal year, the Township had total long-term bonds and contracts outstanding in the amount of \$11,855,500. \$505,500 consists of debt backed by the full faith and credit of the Township. Another \$11,350,000 represents bonds secured solely by specific revenue sources (i.e., special assessments and taxes).

During the year ended June 30, 2008, the Township decreased its long-term debt through the retirement of various bonds and contracts totaling \$667,000. All debt service payments were made in a timely manner.

Other long-term debt obligations, totaling \$108,900, represent accrued compensated absences.

More detailed information about the Township's noncurrent liabilities is presented in Note 7 of the notes to the basic financial statements.

Economic condition and outlook

Approximately \$662 thousand is available for appropriation in the General Fund budget. Significant increases in property taxes will occur over the next four years as taxes are progressively levied on a Renaissance Zone property in the Township. Other revenues are expected to increase slightly for 2008.

The Township plans to use transfers from the General Fund, along with contributions from the Covert Foundation and the Van Buren District Library, to construct a new district library facility in the Township, with construction to begin in the upcoming fiscal year. The General Fund share of the costs is expected to be approximately \$500,000, while the Covert Foundation has pledged \$200,000 over ten years for the project. The District Library has committed \$100,000 for construction, and will also furnish the library building.

Revenues and expenditures in the Township's other governmental funds are expected to remain stable.

The Township's Water Fund is expected to operate so that revenues, including property taxes for debt service, will continue to exceed expenses for services. The Wastewater Fund is expected to incur an operating deficit which will likely require a Township subsidy.

Contacting the Township's financial management

This financial report is designed to provide a general overview of the Township's finances to its citizens, customers, investors, and creditors, and to demonstrate the Township's accountability for the money it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to the Township of Covert, Supervisor's Office, P.O. Box 35, Covert, Michigan 49043 (Phone: (269) 764-8986.)

INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Township of Covert, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Township of Covert, Michigan, as of June 30, 2008, and for the year then ended, which collectively comprise the Township of Covert, Michigan's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township of Covert, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Covert, Michigan, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have issued our report dated October 23, 2008, on our consideration of the Township of Covert, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As disclosed in Note 13 to the financial statements the Township recorded a prior period adjustment to correct its method of accounting for certain property taxes.

The management's discussion and analysis and budgetary comparison schedules, as listed in the contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Township of Covert, Michigan's basic financial statements. The supplementary information, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Township of Covert, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Siegfried Crandall P.C.

October 23, 2008

BASIC FINANCIAL STATEMENTS

Township of Covert
STATEMENT OF NET ASSETS
June 30, 2008

	<u>Govern- mental activities</u>	<u>Business- type activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash	\$ 2,070,360	\$ 1,397,484	\$ 3,467,844
Receivables	121,586	125,358	246,944
Prepaid expenses	16,200	-	16,200
Total current assets	<u>2,208,146</u>	<u>1,522,842</u>	<u>3,730,988</u>
Noncurrent assets:			
Receivables	12,276	590,191	602,467
Deferred charges	-	66,566	66,566
Capital assets not being depreciated - land	48,710	94,583	143,293
Capital assets, net of accumulated depreciation	<u>1,122,430</u>	<u>16,910,021</u>	<u>18,032,451</u>
Total noncurrent assets	<u>1,183,416</u>	<u>17,661,361</u>	<u>18,844,777</u>
Total assets	<u>3,391,562</u>	<u>19,184,203</u>	<u>22,575,765</u>
LIABILITIES			
Current liabilities:			
Payables	99,465	108,457	207,922
Current maturities of long-term debt	<u>8,000</u>	<u>659,500</u>	<u>667,500</u>
Total current liabilities	<u>107,465</u>	<u>767,957</u>	<u>875,422</u>
Noncurrent liabilities:			
Compensated absences	108,900	-	108,900
Long-term debt	<u>119,000</u>	<u>11,036,800</u>	<u>11,155,800</u>
Total noncurrent liabilities	<u>227,900</u>	<u>11,036,800</u>	<u>11,264,700</u>
Total liabilities	<u>335,365</u>	<u>11,804,757</u>	<u>12,140,122</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,044,140	5,308,304	6,352,444
Restricted for:			
Public safety	650,426	-	650,426
Public works	517,300	-	517,300
Health and welfare	29,238	-	29,238
Debt service	67,742	651,558	719,300
Unrestricted	<u>747,351</u>	<u>1,419,584</u>	<u>2,166,935</u>
Total net assets	<u>\$ 3,056,197</u>	<u>\$ 7,379,446</u>	<u>\$ 10,435,643</u>

See notes to financial statements

Township of Covert
STATEMENT OF ACTIVITIES
Year ended June 30, 2008

		<u>Program revenues</u>	
		<u>Charges for</u>	<u>Operating</u>
	<u>Expenses</u>	<u>services</u>	<u>grants and</u>
			<u>contributions</u>
Functions/Programs			
Governmental activities:			
Legislative	\$ 1,801	\$ -	\$ -
General government	366,413	186,911	-
Public safety	1,161,048	142,810	2,235
Public works	259,513	3,308	7,308
Health and welfare	158,147	12,646	-
Community and economic development	46,707	10,172	-
Recreation and culture	67,954	76,911	-
Interest on long-term debt	5,569	-	-
	<u>2,067,152</u>	<u>432,758</u>	<u>9,543</u>
Total governmental activities			
Business-type activities:			
Water	1,118,475	218,129	-
Sewer	111,740	68,636	-
	<u>1,230,215</u>	<u>286,765</u>	<u>-</u>
Total business-type activities			
Total primary government			
	<u>\$ 3,297,367</u>	<u>\$ 719,523</u>	<u>\$ 9,543</u>
General revenues:			
Property taxes			
State shared revenues			
Investment income			
Total general revenues			
Change in net assets			
Net assets - beginning			
Net assets - ending			

<i>Net (expenses) revenues and changes in net assets</i>		
<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>
\$ (1,801)		\$ (1,801)
(179,502)		(179,502)
(1,016,003)		(1,016,003)
(248,897)		(248,897)
(145,501)		(145,501)
(36,535)		(36,535)
8,957		8,957
<u>(5,569)</u>		<u>(5,569)</u>
 <u>(1,624,851)</u>		 <u>(1,624,851)</u>
	\$ (900,346)	(900,346)
	<u>(43,104)</u>	<u>(43,104)</u>
	 <u>(943,450)</u>	 <u>(943,450)</u>
<u>(1,624,851)</u>	<u>(943,450)</u>	<u>(2,568,301)</u>
 1,743,675	957,299	2,700,974
218,236	-	218,236
<u>37,132</u>	<u>61,497</u>	<u>98,629</u>
 <u>1,999,043</u>	 <u>1,018,796</u>	 <u>3,017,839</u>
 374,192	75,346	449,538
<u>2,682,005</u>	<u>7,304,100</u>	<u>9,986,105</u>
 <u>\$ 3,056,197</u>	 <u>\$ 7,379,446</u>	 <u>\$ 10,435,643</u>

See notes to financial statements

Township of Covert
BALANCE SHEET - governmental funds

June 30, 2008

	<u>General</u>	<u>Police</u>	<u>Fire and Ambulance</u>
ASSETS			
Cash	\$ 673,528	\$ 239,474	\$ 543,818
Receivables	<u>81,183</u>	<u>-</u>	<u>40,403</u>
Total assets	<u>\$ 754,711</u>	<u>\$ 239,474</u>	<u>\$ 584,221</u>
LIABILITIES AND FUND BALANCES			
Liabilities - accounts payable	<u>\$ 75,849</u>	<u>\$ 10,431</u>	<u>\$ 13,185</u>
Fund balances:			
Reserved for building inspections	17,153	-	-
Reserved for debt service	-	-	67,742
Reserved for long-term receivables	-	-	-
Unreserved, undesignated	661,709	229,043	503,294
Unreserved, reported in other governmental funds - special revenue	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>678,862</u>	<u>229,043</u>	<u>571,036</u>
Total liabilities and fund balances	<u>\$ 754,711</u>	<u>\$ 239,474</u>	<u>\$ 584,221</u>

Total fund balances - governmental funds

Amounts reported for *governmental activities* in the statement of net assets (page 5) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Prepaid expenses used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Long-term liabilities, including contracts payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Other long-term liabilities (compensated absences) are not due and payable in the current period and, therefore, are not reported in the funds

Net assets of governmental funds

<i>Other governmental funds</i>	<i>Totals</i>
\$ 613,540	\$ 2,070,360
<u>12,276</u>	<u>133,862</u>
\$ 625,816	\$ 2,204,222
<u>\$ -</u>	<u>\$ 99,465</u>
-	17,153
-	67,742
12,276	12,276
-	1,394,046
<u>613,540</u>	<u>613,540</u>
<u>625,816</u>	<u>2,104,757</u>
<u>\$ 625,816</u>	<u>\$ 2,204,222</u>
	\$ 2,104,757
	1,171,140
	16,200
	(127,000)
	<u>(108,900)</u>
	<u>\$ 3,056,197</u>

See notes to financial statements

*Township of Covert***STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND****BALANCES - governmental funds***Year ended June 30, 2008*

	<u>General</u>	<u>Police</u>	<u>Fire and Ambulance</u>
REVENUES			
Taxes	\$ 391,925	\$ 522,516	\$ 651,779
Licenses and permits	28,293	-	-
State grants	222,629	2,235	-
Charges for services	95,888	-	88,267
Fines and forfeitures	320	11,704	-
Interest and rentals	42,430	2,008	7,485
Other	56,738	3,955	10,842
	<u>838,223</u>	<u>542,418</u>	<u>758,373</u>
Total revenues			
EXPENDITURES			
Legislative	1,801	-	-
General government	360,417	-	-
Public safety	36,653	470,116	569,113
Public works	181,638	-	-
Health and welfare	-	-	-
Community and economic development	46,707	-	-
Recreation and culture	67,680	-	-
Debt service:			
Principal	-	-	8,000
Interest	-	-	5,569
	<u>694,896</u>	<u>470,116</u>	<u>582,682</u>
Total expenditures			
EXCESS OF REVENUES OVER EXPENDITURES	<u>143,327</u>	<u>72,302</u>	<u>175,691</u>
OTHER FINANCING SOURCES (USES)			
Transfers in from other funds	100,000	-	-
Transfers out to other funds	-	-	(100,000)
	<u>100,000</u>	<u>-</u>	<u>(100,000)</u>
Total other financing sources (uses)			
NET CHANGE IN FUND BALANCES	243,327	72,302	75,691
FUND BALANCES - BEGINNING	<u>435,535</u>	<u>156,741</u>	<u>495,345</u>
FUND BALANCES - ENDING	<u>\$ 678,862</u>	<u>\$ 229,043</u>	<u>\$ 571,036</u>

<i>Other governmental funds</i>	<i>Totals</i>
\$ 308,407	\$ 1,874,627
-	28,293
-	224,864
-	184,155
-	12,024
8,789	60,712
12,646	84,181
<u>329,842</u>	<u>2,468,856</u>
-	1,801
-	360,417
-	1,075,882
77,372	259,010
158,147	158,147
-	46,707
-	67,680
-	8,000
-	5,569
<u>235,519</u>	<u>1,983,213</u>
<u>94,323</u>	<u>485,643</u>
-	100,000
-	(100,000)
-	-
94,323	485,643
<u>531,493</u>	<u>1,619,114</u>
<u>\$ 625,816</u>	<u>\$ 2,104,757</u>

See notes to financial statements

Township of Covert

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - *governmental funds* (Continued)**

Year ended June 30, 2008

	<i>Total governmental funds</i>
	<hr/>
Net change in fund balances - total governmental funds	\$ 485,643
Amounts reported for <i>governmental activities</i> in the statement of activities (page 6) are different because:	
Capital assets:	
Assets acquired	13,150
Provision for depreciation	(108,589)
Long-term debt - principal repayments	8,000
Changes in other assets and liabilities:	
Net increase in prepaid expenses	16,200
Net increase in compensated absences	(12,700)
Net decrease in deferred revenue	<hr/> (27,512)
Change in net assets of <i>governmental activities</i>	<hr/> \$ 374,192

See notes to financial statements

Township of Covert
STATEMENT OF NET ASSETS - proprietary funds
June 30, 2008

	<u>Business-type activities - enterprise funds</u>		
	<u>Major</u>	<u>Nonmajor</u>	
	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash and investments	\$ 1,332,544	\$ 19,463	\$ 1,352,007
Receivables, net	101,611	23,747	125,358
Bond debt reserves - USDA loan	-	45,477	45,477
Total current assets	<u>1,434,155</u>	<u>88,687</u>	<u>1,522,842</u>
Noncurrent assets:			
Receivables, net	588,610	1,581	590,191
Deferred charges	66,566	-	66,566
Capital assets, not being depreciated - land	-	94,583	94,583
Capital assets, net of accumulated depreciation	<u>15,833,210</u>	<u>1,076,811</u>	<u>16,910,021</u>
Total noncurrent assets	<u>16,488,386</u>	<u>1,172,975</u>	<u>17,661,361</u>
Total assets	<u>17,922,541</u>	<u>1,261,662</u>	<u>19,184,203</u>
LIABILITIES			
Current liabilities:			
Accounts payable	57,285	1,821	59,106
Accrued interest	39,888	9,463	49,351
Current maturities of long-term debt	<u>650,000</u>	<u>9,500</u>	<u>659,500</u>
Total current liabilities	<u>747,173</u>	<u>20,784</u>	<u>767,957</u>
Noncurrent liabilities - long-term debt	<u>10,667,800</u>	<u>369,000</u>	<u>11,036,800</u>
Total liabilities	<u>11,414,973</u>	<u>389,784</u>	<u>11,804,757</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,515,410	792,894	5,308,304
Restricted for debt service	615,544	36,014	651,558
Unrestricted	<u>1,376,614</u>	<u>42,970</u>	<u>1,419,584</u>
Total net assets	<u>\$ 6,507,568</u>	<u>\$ 871,878</u>	<u>\$ 7,379,446</u>

See notes to financial statements

Township of Covert

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND

NET ASSETS - *proprietary funds*

Year ended June 30, 2008

	<i><u>Business-type activities - enterprise funds</u></i>		
	<i><u>Major</u></i>	<i><u>Non-major</u></i>	
	<i><u>Water</u></i>	<i><u>Sewer</u></i>	<i><u>Totals</u></i>
OPERATING REVENUES			
Charges for services	\$ 159,765	\$ 68,636	\$ 228,401
Hook up fees	58,364	-	58,364
Total operating revenues	218,129	68,636	286,765
OPERATING EXPENSES			
Contractual services	248,117	23,742	271,859
Utilities	554	3,061	3,615
Depreciation	357,786	48,189	405,975
Repairs and maintenance	2,875	13,993	16,868
Total operating expenses	609,332	88,985	698,317
OPERATING LOSS	(391,203)	(20,349)	(411,552)
NONOPERATING REVENUES (EXPENSES)			
Interest	61,212	285	61,497
Interest expense	(509,143)	(22,755)	(531,898)
Property taxes	957,299	-	957,299
Total nonoperating revenues (expenses)	509,368	(22,470)	486,898
CHANGE IN NET ASSETS	118,165	(42,819)	75,346
NET ASSETS - BEGINNING	6,389,403	914,697	7,304,100
NET ASSETS - ENDING	<u>\$ 6,507,568</u>	<u>\$ 871,878</u>	<u>\$ 7,379,446</u>

See notes to financial statements

Township of Covert
STATEMENT OF CASH FLOWS - proprietary funds
Year ended June 30, 2008

	<i>Business-type activities - enterprise funds</i>		
	<i>Major</i>	<i>Non-major</i>	
	<i>Water</i>	<i>Sewer</i>	<i>Totals</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 313,868	\$ 73,843	\$ 387,711
Payments to suppliers	(214,285)	(40,726)	(255,011)
Net cash provided by operating activities	99,583	33,117	132,700
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Collections of property taxes	957,299	-	957,299
Collection of special assessment principal	57,518	-	57,518
Collection of special assessment interest	35,725	-	35,725
Principal payments on long-term debt	(650,000)	(9,000)	(659,000)
Interest payments on long-term debt	(504,328)	(22,980)	(527,308)
Net cash used in capital and related financing activities	(103,786)	(31,980)	(135,766)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	27,192	285	27,477
NET INCREASE IN CASH	22,989	1,422	24,411
CASH - BEGINNING	1,309,555	63,518	1,373,073
CASH - ENDING	\$ 1,332,544	\$ 64,940	\$ 1,397,484
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (391,203)	\$ (20,349)	\$ (411,552)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	357,786	48,189	405,975
Decrease in accounts receivable	95,739	5,207	100,946
Increase in accounts payable	37,261	70	37,331
Net cash provided by operating activities	\$ 99,583	\$ 33,117	\$ 132,700

See notes to financial statements

Township of Covert
STATEMENT OF FIDUCIARY NET ASSETS - *agency funds*
June 30, 2008

ASSETS

Cash	\$ <u>12,409</u>
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LIABILITIES

Due to other governmental units	\$ <u>12,409</u>
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See notes to the financial statements

Township of Covert
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Covert, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present only the Township. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Township exercises oversight responsibility.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. The effect of all interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are expected to be collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Police Fund, and Fire and Ambulance Fund account for public safety activities.

The Township reports a single major proprietary fund, Water Fund, which accounts for activities of the Township's water distribution system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the GASB. The Township also has the option of following subsequent private sector guidance for its business-type activities and enterprise funds, subject to the same limitations. The Township has elected not to follow subsequent private-sector standards.

The Township reports a single fiduciary fund, its Agency Fund, which accounts for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits and investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.

ii) Receivables and payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All receivables are considered to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the government-wide financial statements.

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets other than infrastructure are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Equipment	3 - 20 years
Sewer and water systems	50 years

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) *Assets, liabilities, and net assets or equity* (continued):

v) *Compensated absences (vacation and sick leave)* - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the Township. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

vi) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

vii) *Property tax revenue recognition* - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the activity level. All annual appropriations lapse at the end of the fiscal year. The following schedule sets forth significant budget variations:

<u>Fund</u>	<u>Function</u>	<u>Activity</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Hospital	Health and welfare	Hospital	-	106,254	106,254
Seniors	Health and welfare	Senior services	-	51,893	51,893

NOTE 3 - CASH AND INVESTMENTS:

The Township's deposits, as presented in the government-wide statement of net assets, are as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary</u>	<u>Totals</u>
Cash	\$ 2,002,618	\$ 1,352,007	\$ 12,409	\$ 3,367,034
Restricted assets	<u>67,742</u>	<u>45,477</u>	<u>-</u>	<u>113,219</u>
Total cash	<u>\$ 2,070,360</u>	<u>\$ 1,397,484</u>	<u>\$ 12,409</u>	<u>\$ 3,480,253</u>

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH AND INVESTMENTS (Continued):

Deposits are carried at cost and are maintained at various financial institutions in the name of the Township Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance. At June 30, 2008, \$3,118,207 of the Township's bank balances of \$3,518,207 was exposed to custodial credit risk because it was uninsured. Bond debt reserves in the amount of \$45,477 are held in separate accounts, as required by the U.S. Department of Agriculture.

The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual major and nonmajor funds, in the aggregate, and business-type funds are as follows:

	<u>General</u>	<u>Fire and Ambulance</u>	<u>Non-major</u>	<u>Total governmental</u>	<u>Water</u>	<u>Non-major</u>	<u>Total business-type</u>
Accounts	\$ 9,793	\$ 40,403	\$12,276	\$ 62,472	\$ 37,549	\$ 25,328	\$ 62,877
Intergovernmental	71,390	-	-	71,390	-	-	-
Assessments	-	-	-	-	633,888	-	633,888
Interest	-	-	-	-	18,784	-	18,784
Receivables, net	<u>\$ 81,183</u>	<u>\$ 40,403</u>	<u>\$12,276</u>	<u>\$133,862</u>	<u>\$ 690,221</u>	<u>\$ 25,328</u>	<u>\$ 715,549</u>
Non-current portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$12,276</u>	<u>\$ 12,276</u>	<u>\$ 588,610</u>	<u>\$ 1,581</u>	<u>\$ 590,191</u>

NOTE 5 - ECONOMIC DEPENDENCY:

The Township received approximately 50 percent of its property tax revenues from one major taxpayer.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2008, was as follows:

	<i><u>Beginning balance</u></i>	<i><u>Increases</u></i>	<i><u>Decreases</u></i>	<i><u>Ending balance</u></i>
Governmental activities:				
Capital assets not being depreciated - land	\$ 48,710	\$ -	\$ -	\$ 48,710
Capital assets being depreciated:				
Buildings and improvements	\$ 1,450,969	\$ 13,150	\$ -	\$ 1,464,119
Furniture, fixtures, and equipment	576,493	-	-	576,493
Vehicles	600,072	-	-	600,072
Subtotal	<u>2,627,534</u>	<u>13,150</u>	<u>-</u>	<u>2,640,684</u>
Less accumulated depreciation for:				
Buildings and improvements	(680,586)	(39,247)	-	(719,833)
Furniture, fixtures, and equipment	(314,236)	(34,409)	-	(348,645)
Vehicles	(414,843)	(34,933)	-	(449,776)
Subtotal	<u>(1,409,665)</u>	<u>(108,589)</u>	<u>-</u>	<u>(1,518,254)</u>
Total capital assets being depreciated, net	<u>1,217,869</u>	<u>(95,439)</u>	<u>-</u>	<u>1,122,430</u>
Governmental activities capital assets, net	<u>\$ 1,266,579</u>	<u>\$ (95,439)</u>	<u>\$ -</u>	<u>\$ 1,171,140</u>

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 94,583	\$ -	\$ -	\$ 94,583
Capital assets being depreciated:				
Sewer system	1,906,269	-	-	1,906,269
Water system	17,889,278	-	-	17,889,278
Subtotal	19,795,547	-	-	19,795,547
Less accumulated depreciation for:				
Sewer system	(781,269)	(48,189)	-	(829,458)
Water system	(1,698,282)	(357,786)	-	(2,056,068)
Subtotal	(2,479,551)	(405,975)	-	(2,885,526)
Total capital assets being depreciated, net	17,315,996	(405,975)	-	16,910,021
Business-type activities capital assets, net	\$ 17,410,579	\$ (405,975)	\$ -	\$ 17,004,604

Depreciation expense was charged to the governmental activities of the Township as follows:

General government	\$ 12,360
Public safety	82,302
Public works	503
Recreation and culture	13,424
Total governmental activities	\$ 108,589

NOTE 7 - LONG-TERM DEBT:

At June 30, 2008, long-term liabilities are comprised of the following individual issues:

Governmental activities:	
\$150,000 4.125% USDA installment loan; due in annual installments of \$7,000 to \$13,000 through June 2020.	\$ 127,000
Accrued compensated absences	108,900
Total long-term obligations	\$ 235,900

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - LONG-TERM DEBT (Continued):

Business type activities:

Sanitary sewer revenue bonds, series 1989A, bearing interest at 6%, maturing each year 1991 through 2029	\$ 257,500
Sanitary sewer revenue bonds, series 1989B, bearing interest at 6%, maturing each year 1991 through 2029	121,000
\$5,000,000 County of Van Buren Water Supply System limited tax general obligation bond series 2002, bearing interest at 3.50 to 4.75%, maturing each year through 2021, net of unamortized discount of \$37,154	4,350,000
\$7,500,000 County of Van Buren Water Supply System limited tax general obligation bond series 2003, bearing interest at 3.000 to 4.375%, maturing each year through 2024	<u>7,000,000</u>
Total bonds payable	11,728,500
Unamortized bond discount	<u>(32,200)</u>
Total business-type activities bonds payable	<u>\$ 11,696,300</u>

All debt is secured by the full faith and credit of the Township.

Long-term liability activity for the year ended June 30, 2008, was as follows:

	<i>Beginning balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending balance</i>	<i>Amounts due within one year</i>
Governmental activities:					
Note payable	\$ 135,000	\$ -	\$ (8,000)	\$ 127,000	\$ 8,000
Compensated absences	<u>96,200</u>	<u>39,402</u>	<u>(26,702)</u>	<u>108,900</u>	<u>-</u>
Total	<u>\$ 231,200</u>	<u>\$ 39,402</u>	<u>\$ (34,702)</u>	<u>\$ 235,900</u>	<u>\$ 8,000</u>
Business-type activities:					
1989A revenue bonds	\$ 263,500	\$ -	\$ (6,000)	\$ 257,500	\$ 6,250
1989B revenue bonds	124,000	-	(3,000)	121,000	3,250
2002 general obligation	4,675,000	-	(325,000)	4,350,000	325,000
2003 general obligation	<u>7,325,000</u>	<u>-</u>	<u>(325,000)</u>	<u>7,000,000</u>	<u>325,000</u>
	12,387,500	-	(659,000)	11,728,500	<u>\$ 659,500</u>
Less bond discounts	<u>(34,677)</u>	<u>-</u>	<u>2,477</u>	<u>(32,200)</u>	
Total	<u>\$ 12,352,823</u>	<u>\$ -</u>	<u>\$ (656,523)</u>	<u>\$ 11,696,300</u>	

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - LONG-TERM DEBT (Continued):

Debt service requirements (exclusive of compensated absences) at June 30, 2008, were as follows:

<u>Years ended June 30:</u>	<u>Governmental activities</u>		<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 8,000	\$ 5,239	\$ 659,500	\$ 500,801
2010	9,000	4,909	660,500	474,983
2011	9,000	4,537	661,000	448,323
2012	9,000	4,166	662,000	421,603
2013	10,000	3,795	687,500	394,853
2014-2018	56,000	12,498	3,549,500	1,543,809
2019-2023	26,000	1,608	3,943,000	725,929
2024-2028	-	-	858,500	60,291
2029-2030	-	-	47,000	1,440
Totals	<u>\$ 127,000</u>	<u>\$ 36,752</u>	<u>\$ 11,728,500</u>	<u>\$ 4,572,032</u>

NOTE 8 - INTERFUND TRANSFERS:

The \$100,000 transfer from the Fire and Ambulance Fund to the General Fund repaid prior years' subsidies from the General Fund to the Fire and Ambulance Fund.

NOTE 9 - DEFINED CONTRIBUTION AND MONEY PURCHASE PLAN:

The Township maintains a defined contribution plan. The plan is a non-trustee plan and the Township does not administer the plan assets. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Michigan State Statute assigns the authority to establish and amend benefit provisions to the Township Board of Trustees. All members of the Township Board and all Township employees employed full-time on a regular basis are eligible to participate. Eligible employees may begin participating after six months of employment. The Township contributes 6 percent of participating employees' annual compensation.

All of the Township's contributions for each participating employee (and interest allocated to the employee's account) are fully vested when the employee participates in the plan. The Township made required contributions of \$59,377 for the year ended June 30, 2008.

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLAN:

Plan description:

The Township's defined benefit pension plan provides retirement benefits to qualified employees belonging to the Police, and Fire and Ambulance bargaining units, and their beneficiaries. The Township's defined benefit pension plan is affiliated with the Municipal Employees' Retirement System of Michigan (MERS), an agent, multiple-employer, public employee retirement system that acts as a common investment and administrative agent for municipalities in Michigan. Public Act 220 of 1996 of the State of Michigan assigns the authority to establish and amend the benefit provisions to the Township. The MERS issues a publicly-available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 N. Canal, Lansing, Michigan 48917, or by calling 1-800-767-6377.

Funding policy:

MERS members are required to contribute varying amounts, based on the benefit structure established by each employer. The Township is required to contribute at an actuarially determined rate, which currently is 14.35 percent. Covered employees are not required to contribute to the plan. Administrative costs of the plan are financed through investment earnings.

Annual pension cost:

For the year ended June 30, 2008, the Township's annual pension cost of \$20,058 for its defined benefit pension plan equaled the required contributions. The required contribution was determined as part of the December 1, 2007, actuarial valuation using the entry age normal cost method. The actuarial assumptions included a) 8 percent investment rate of return, net of administrative expenses, b) projected salary increases of 4.5 percent per year, and c) no cost of living adjustments. The actuarial value of the plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The plan has an unfunded actuarial accrued liability, which is being amortized over 25 years as a level percentage of payroll. The Township's participation in the plan was effective February 1, 2008.

Trend information:

<i>Fiscal year ended June 30:</i>	<i>Annual pension cost (APC)</i>	<i>Percentage of APC contributed</i>	<i>Net pension obligation</i>
2008	\$ 20,058	100%	-

Funded status and funding progress:

The funded status of the plan as of December 31, 2007, the most recent actuarial date, is as follows:

<i>Actuarial value of assets (a)</i>	<i>Actuarial accrued liability (AAL) entry age (b)</i>	<i>Unfunded AAL (UAAL) (b-a)</i>	<i>Funded ratio (a/b)</i>	<i>Covered payroll (c)</i>	<i>UAAL as a percentage of covered payroll ((b-a)/c)</i>
\$ -	\$ 564,224	\$ 564,224	0%	\$ 480,688	117%

Township of Covert
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLAN (Continued):

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Assets totaling \$268,872 were transferred to the defined benefit plan from another retirement plan during the year ended June 30, 2008.

NOTE 11 - CLAIMS ARISING FROM RISK OF LOSS:

The Township is exposed to various risks of losses for claims arising from general liability, wrongful acts, professional liability, property damage and destruction, crime, accidents, and injuries. Risks of losses arising from possible claims are managed through the purchase of commercial insurance.

For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 12 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2008, is as follows:

Revenues	\$ 27,722
Expenses	<u>26,380</u>
Excess of revenues over expenses	<u>\$ 1,342</u>
Cumulative excess, included in fund balance reservation of General Fund	<u>\$ 17,153</u>

NOTE 13 - PRIOR PERIOD ADJUSTMENTS:

Prior period adjustments have been recorded in 2008 that resulted in net asset restatements. Fund equity as of July 1, 2007, included in the financial statements, represents restated balances as presented below. The following schedule identifies the nature and amount of the adjustments recorded to correct the Township's method of recording allocated property taxes.

	<u>Fund Balance</u> <u>Fire and</u> <u>Ambulance Fund</u>	<u>Net Assets</u> <u>Governmental</u> <u>Activities</u>
Beginning of year, as previously reported	\$ 444,754	\$ 2,631,414
Prior period adjustments - understatement of taxes receivable	<u>50,591</u>	<u>50,591</u>
Beginning of year, as restated	<u>\$ 495,345</u>	<u>\$ 2,682,005</u>

REQUIRED SUPPLEMENTARY INFORMATION

Township of Covert
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 392,000	\$ 392,000	\$ 391,925	\$ (75)
Licenses and permits	15,000	15,000	28,293	13,293
State grants	175,000	175,000	222,629	47,629
Charges for services	94,000	94,000	95,888	1,888
Fines and forfeitures	-	-	320	320
Interest and rentals	26,500	26,500	42,430	15,930
Other	40,000	40,000	56,738	16,738
Total revenues	<u>742,500</u>	<u>742,500</u>	<u>838,223</u>	<u>95,723</u>
EXPENDITURES				
Legislative - Township Board	<u>2,000</u>	<u>2,000</u>	<u>1,801</u>	<u>199</u>
General government:				
Supervisor	35,000	35,000	24,782	10,218
Elections	15,000	15,000	5,366	9,634
Assessing	70,000	70,000	67,628	2,372
Clerk	40,000	40,000	34,667	5,333
Board of review	5,000	5,000	3,313	1,687
Treasurer	50,000	50,000	39,014	10,986
Buildings and grounds	30,000	30,000	19,600	10,400
Cemetery	15,000	15,000	6,716	8,284
Other	193,000	193,000	159,331	33,669
Total general government	<u>453,000</u>	<u>453,000</u>	<u>360,417</u>	<u>92,583</u>
Public safety:				
Building inspections	45,000	45,000	26,380	18,620
Ordinance enforcement	60,000	60,000	10,273	49,727
Total public safety	<u>105,000</u>	<u>105,000</u>	<u>36,653</u>	<u>68,347</u>
Public works:				
Highways and streets	80,000	80,000	76,896	3,104
Transfer station	50,000	50,000	33,987	16,013
Housing Commission	2,500	2,500	1,220	1,280
Drains	7,000	7,000	-	7,000
Airport Authority	-	70,000	69,535	465
Total public works	<u>139,500</u>	<u>209,500</u>	<u>181,638</u>	<u>27,862</u>

Township of Covert

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Community and economic development - planning and zoning	<u>\$ 30,000</u>	<u>\$ 50,000</u>	<u>\$ 46,707</u>	<u>\$ 3,293</u>
Recreation and culture:				
Parks	75,000	75,000	52,285	22,715
Library	6,300	18,300	14,395	3,905
Other	<u>-</u>	<u>1,000</u>	<u>1,000</u>	<u>-</u>
Total recreation and culture	<u>81,300</u>	<u>94,300</u>	<u>67,680</u>	<u>26,620</u>
Total expenditures	<u>810,800</u>	<u>913,800</u>	<u>694,896</u>	<u>218,904</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(68,300)	(171,300)	143,327	314,627
OTHER FINANCING SOURCES				
Transfer from Fire and Ambulance Fund	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	31,700	(71,300)	243,327	314,627
FUND BALANCES - BEGINNING	<u>435,535</u>	<u>435,535</u>	<u>435,535</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 467,235</u>	<u>\$ 364,235</u>	<u>\$ 678,862</u>	<u>\$ 314,627</u>

Township of Covert
BUDGETARY COMPARISON SCHEDULE - Police Fund
Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 525,000	\$ 525,000	\$ 522,516	\$ (2,484)
State grants	-	-	2,235	2,235
Fines and forfeitures	10,000	10,000	11,704	1,704
Interest	1,000	1,000	2,008	1,008
Other	<u>4,500</u>	<u>4,500</u>	<u>3,955</u>	<u>(545)</u>
Total revenues	540,500	540,500	542,418	1,918
EXPENDITURES				
Public safety - police protection	<u>484,500</u>	<u>484,500</u>	<u>470,116</u>	<u>14,384</u>
NET CHANGE IN FUND BALANCES	56,000	56,000	72,302	16,302
FUND BALANCES - BEGINNING	<u>156,741</u>	<u>156,741</u>	<u>156,741</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 212,741</u>	<u>\$ 212,741</u>	<u>\$ 229,043</u>	<u>\$ 16,302</u>

Township of Covert
BUDGETARY COMPARISON SCHEDULE - Fire and Ambulance Fund
Year ended June 30, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 647,700	\$ 647,700	\$ 651,779	\$ 4,079
Charges for services	70,000	70,000	88,267	18,267
Interest	4,000	4,000	7,485	3,485
Other	<u>5,000</u>	<u>5,000</u>	<u>10,842</u>	<u>5,842</u>
Total revenues	<u>726,700</u>	<u>726,700</u>	<u>758,373</u>	<u>31,673</u>
EXPENDITURES:				
Public safety	653,000	653,000	569,113	83,887
Capital outlay	40,000	40,000	-	40,000
Debt service:				
Principal	8,000	8,000	8,000	-
Interest	<u>7,000</u>	<u>7,000</u>	<u>5,569</u>	<u>1,431</u>
Total expenditures	<u>708,000</u>	<u>708,000</u>	<u>582,682</u>	<u>125,318</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>18,700</u>	<u>18,700</u>	<u>175,691</u>	<u>156,991</u>
OTHER FINANCING USES				
Transfer to General Fund	<u>(100,000)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(81,300)</u>	<u>(81,300)</u>	<u>75,691</u>	<u>156,991</u>
FUND BALANCES - BEGINNING	<u>444,754</u>	<u>444,754</u>	<u>495,345</u>	<u>50,591</u>
FUND BALANCES - ENDING	<u>\$ 363,454</u>	<u>\$ 363,454</u>	<u>\$ 571,036</u>	<u>\$ 207,582</u>

Township of Covert
ANALYSIS OF FUNDING PROGRESS - Employee Retirement System
(Municipal Employees' Retirement System of Michigan)

The information presented in the required supplementary schedule was determined as part of the actuarial valuations at the dates indicated.

<i>Actuarial valuation date December 1,</i>	<i>Actuarial value of assets (a)</i>	<i>Actuarial accrued liability (AAL) entry age (b)</i>	<i>Funded ratio (a)/(b)</i>	<i>Underfunded AAL (UAAL) (b-a)</i>	<i>Covered payroll (c)</i>	<i>UAAL as a percentage of covered payroll ((b-a)/c)</i>
2007*	\$ -	\$ 564,224	0%	\$ 564,224	\$ 480,688	117%

*Plan participation began February 1, 2008.

SUPPLEMENTARY INFORMATION

Township of Covert
COMBINING BALANCE SHEET - nonmajor governmental funds
June 30, 2008

	<i>Special revenue funds</i>				<i>Total nonmajor governmental funds</i>
	<i>Roads</i>	<i>Hospital</i>	<i>Seniors</i>	<i>Loan</i>	
ASSETS					
Cash	\$ 517,300	\$ -	\$ 29,238	\$ 67,002	\$ 613,540
Receivables, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,276</u>	<u>12,276</u>
Total assets	<u>\$ 517,300</u>	<u>\$ -</u>	<u>\$ 29,238</u>	<u>\$ 79,278</u>	<u>\$ 625,816</u>
FUND BALANCES					
Reserved for long-term receivables	\$ -	\$ -	\$ -	\$ 12,276	\$ 12,276
Unreserved, undesignated	<u>517,300</u>	<u>-</u>	<u>29,238</u>	<u>67,002</u>	<u>613,540</u>
Total fund balances	<u>\$ 517,300</u>	<u>\$ -</u>	<u>\$ 29,238</u>	<u>\$ 79,278</u>	<u>\$ 625,816</u>

Township of Covert

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - *nonmajor governmental funds***

Year ended June 30, 2008

	<u>Special revenue funds</u>				<i>Total nonmajor governmental funds</i>
	<u>Roads</u>	<u>Hospital</u>	<u>Seniors</u>	<u>Loan</u>	
REVENUES					
Taxes	\$ 133,672	\$ 106,254	\$ 68,481	\$ -	\$ 308,407
Interest	8,785	-	4	-	8,789
Other	-	-	12,646	-	12,646
	<u>142,457</u>	<u>106,254</u>	<u>81,131</u>	<u>-</u>	<u>329,842</u>
Total revenues					
EXPENDITURES					
Public works	77,372	-	-	-	77,372
Health and welfare	-	106,254	51,893	-	158,147
	<u>77,372</u>	<u>106,254</u>	<u>51,893</u>	<u>-</u>	<u>235,519</u>
Total expenditures					
NET CHANGE IN FUND BALANCES	65,085	-	29,238	-	94,323
FUND BALANCES - BEGINNING	<u>452,215</u>	<u>-</u>	<u>-</u>	<u>79,278</u>	<u>531,493</u>
FUND BALANCES - ENDING	<u>\$ 517,300</u>	<u>\$ -</u>	<u>\$ 29,238</u>	<u>\$ 79,278</u>	<u>\$ 625,816</u>

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Township of Covert, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Covert, as of and for the year ended June 30, 2008, which collectively comprise Township of Covert's basic financial statements and have issued our report thereon dated October 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Township of Covert's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Covert's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township of Covert's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township of Covert's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Township of Covert's financial statements that is more than inconsequential will not be prevented or detected by Township of Covert's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township of Covert's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the following significant deficiency is a material weakness.

- Policies and procedures to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record changes in capital assets and related debt, and to develop appropriate footnote disclosures were not in place. As in prior years, the Township has relied upon our firm as auditor to identify and develop material adjustments necessary to convert cash basis financial statements into full accrual financial statements and to prepare the financial statements and appropriate disclosures. This service is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the Township's financial statements. However, when an organization (on its own) lacks the ability to produce financial statements that conform to generally accepted accounting principles, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. We recommend that management and those charged with governance evaluate and document their informed decision on the costs and benefits of contracting financial statement preparation services with its auditor.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether by the Township of Covert's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Siegfried Crandall P.C.

October 23, 2008